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**AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT**



**PANAMA**

**COUNTRY DEVELOPMENT  
STRATEGY STATEMENT**

**FY 83**

January 1981

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
WASHINGTON, D.C. 20523

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WASHINGTON. IT DOES NOT REPRESENT OFFICIAL AGENCY  
POLICY!

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"The pursuit of growth without a reasonable concern for equity is ultimately socially destabilizing, and often violently so. And the pursuit of equity without a reasonable concern for growth merely tends to redistribute economic stagnation.

Neither pursuit, taken by itself, can lead to sustained, successful development."

Robert S. McNamara  
President World Bank  
Address to the Board of Governors  
Washington, D. C.  
September 30, 1980



EMBASSY OF THE  
UNITED STATES OF AMERICA

Panama, Republic of Panama

January 29, 1981

Mr. Joseph C. Wheeler  
Acting Administrator  
Agency for International  
Development  
Washington, D.C. 20523

Dear Mr. Wheeler:

The occasion of another AID strategy submission offers me the opportunity to officially comment--and support--the Panama AID Program. Our Government's overriding concern in Panama continues to be support to both a democratic political structure and a healthy socio-economic environment. I need not detail the problems besetting Panama's neighbors on the Isthmus. Internal stability in Panama contrasts sharply with many of them. Continuing U.S. Panamanian cooperation in areas of mutual interest, including, of course, efficient and secure functioning of the Canal and implementation of the recent treaties, are central to our support for bilateral assistance in the Republic.

It is quite proper, then, that AID has focused on Panama's unemployment and agricultural productivity problems. Over the past year I have noted increasing concern by both the public and private sectors about growing unemployment, and I would identify it as the number one economic problem by far. It is most appropriate, in my judgment, that AID include policy research and development within its strategy while also giving special emphasis to the role of the private sector. Agriculture, too, is quite properly addressed. My own observations, plus those of capable Panamanian and foreign technicians, support AID's conclusions that the rural poor need help to increase their productivity and participation in the national economy.

This CDSS is based upon a \$10 million planning level. As President Reagan begins his new administration, foreign policy concerns are high on his list of priorities. While the AID budget may not receive the resources we would wish, the relative share

Mr. Joseph C. Wheeler  
Acting Administrator

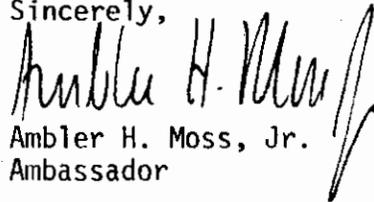
2.

provided Panama must be reconsidered. Panama has been a friend during recent trying events, even when it could easily have remained uninvolved. Panama's record in human rights, in extending social services to the underprivileged, in increasing popular participation in development by all elements of the society, are laudable. Panama's role as international commercial entrepot and financial center make its prosperity pivotal to Central America, the Caribbean and South America.

Because the Panama Canal is of vital importance to our national interests, the economic performance of its "habitat" must be of strong concern to us. From my perspective, we are not making a sufficient investment in Panama's future.

With best regards,

Sincerely,

A handwritten signature in cursive script that reads "Ambler H. Moss, Jr." with a long, sweeping flourish extending to the right.

Ambler H. Moss, Jr.  
Ambassador



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
U. S. AID MISSION TO PANAMA

APO MIAMI 34002

January 30, 1981

Mr. Edward W. Coy  
Acting Assistant Administrator  
Bureau for Latin America and the Caribbean  
Agency for International Development  
Washington, D.C. 20523

Dear Ed:

I am forwarding with this letter USAID/Panama's FY 1983 CDSS. After some eighteen months in Panama, I can state with confidence that it describes a realistic approach to help Panama confront some fundamental, and potentially volatile, development problems.

This CDSS focuses on Panama's inter-related employment and productivity problems, the first being more urban oriented, the second more rural in nature. It also, for the first time, contains a brief analysis of the likely impact of the recent Canal Treaties on Panama's economy and employment problem. Finally, this CDSS explicitly identifies certain sectors which we will not consider for future activities, and outlines a sharp, phased staff reduction, premised on continued resource reductions.

Having now attended two cycles of CDSS reviews at which I have represented two different Missions within this Bureau, I have come to realize that the CDSS is not as critical as guidance would indicate with regard to allocation of AID resources. Perhaps this is good, since we cannot forecast the program demands of, say, a Nicaraguan revolution or El Salvadoran civil strife with accuracy more than a year in advance. Therefore, we have de-emphasized in this CDSS discussion on the usefulness of a higher development budget--not because we could not utilize increased funds over our \$10 million level--which we certainly can--but because, since every USAID appears to present similar arguments, I suspect requests for more funds tend to cancel each other.

Mr. Edward W. Coy

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Finally, this CDSS presents a program which will involve the private sector not just as a recipient of our monies, but as a participant with the Government of Panama in a rational approach to job creation. I do not wish to underestimate the problems this approach entails; but, in an economy such as Panama's, private sector cooperation is vital to economic growth. I look forward to reviewing the document with you.

Sincerely,



Adelmano Ruiz  
Director

Enc. a/s

P A N A M A

FY 1983 Country Development Strategy Statement

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COUNTRY DATA - PANAMA

<u>Area</u>	<u>Population (1980)</u>	<u>Density (1980)</u>
77,082 km <sup>2</sup> (roughly equivalent to South Carolina)	1,830,127 Natural growth rate 2.4% 57% urban 43% rural	24 persons per km <sup>2</sup>

Demographic Indicators (1979)

Crude birth rate (per 1000)	28
Crude death rate (per 1000)	4
Life expectancy	70

Economic Indicators (1979)

(Currency: US Dollar)

GDP (\$ Bil.)	2.840
GDP per capita	1.550
Real An. GDP growth (1974-9)	3.5%
Real An. GDP growth (1979)	7.0%
Real An. GDP growth per capita (1974-9)	0.7%
per capita (1979)	4.4%
An. Inflation rate (1974-9)	5.2%
An. Inflation rate (1979)	14.0%
Balance of Payments, Current Account	-301
Exports	(334)
Canal Area	(88)
Petro.Prod.	(72)
Banana	(66)
Shrimp	(45)
Imports	(-1,096)
Petro. prod.	(-302)
Manuf. goods	(-280)
Machinery	(-193)
Service (net)	(444)
Canal Area	(203)
Colon	
Free Zone	(177)
Travel	(127)
Transfers (net)	(17)
Canal Area	(37.9)

% GDP by Sector (1979)

Services	49.1%
Manufacturing and Construction	18.6%
Agriculture	14.4%
Canal Area (Panamanian wages)	6.0%
Other	11.9%
	<u>100.0%</u>

Labor Force (1979)

Working age (15-65) population	56%
Economically Active Population Rate	60%
% of employed in agriculture	29%

Social Indicators

Adult Literacy (1975)	78%
% of age group (1974) in	
a. Primary Sch. (5-14)	76%
b. Secondary (15-19)	72%
c. Post secondary (20-24)	17%
% of population with access to safe water (1979)	83%
Daily supply of calories per capita (1977)	2,689
Pop. per physician (1979)	1,178

Government Finances (1979)

Central Government (\$ Mil.)	
Current Revenues	485
Current Expenditures	488
Investment - total (\$ Mil.) (Cent.Govt. + Aut.agencies)	385
Public Debt - total (\$Bil)	2.624
% GDP	93%
Debt Service - total (\$Mil)	540
% GDP	19%
% Exports	162%
Interest on Debt	
% GDP	8%
Debt service - Cent.Govt.(\$Mil)	220
% Cent. Govt. Revenue	45%

## PART I. ANALYSIS

### A. Overview

#### 1. Economic Situation

##### a. 1950-1979

During the 1950-1968 period, Panama had a booming, export-oriented, urban-focused economy (annual GDP growth was 7%) and prosperous banana enclaves, on the one hand, and an impoverished, subsistence agricultural sector, on the other. Urban centers like Panama City thrived because of increased tonnage passing through the Canal and the assumption of many erstwhile Canal Company activities by Panamanian businesses. Cities throughout the country were also helped by an improved Inter-American Highway that linked them more closely and expanded their domestic market. Import quotas also encouraged the growth of import-substitution industries. As a result of these activities, by the late 1960s, the Panama City-Colon metropolitan corridor was generating 70% of the GDP, 81% of the manufacturing, 83% of the commerce, and 78% of other services.

Panama's governments during the 1950s and 1960s intervened very little in the economy. The only enterprises owned by the state were the Free Zone, two commercial banks and one agricultural bank. The government invested little in infrastructure, and when it did, with the exception of highways, most of the investments were made in the metropolitan area.

The annual growth rate of manufacturing, however, declined from 12% in 1968 to 4% in 1974. This decline occurred because of the limited domestic market, fewer and fewer easy import-substitution industries, and absence of an export strategy to take advantage of larger foreign markets.

The government's noninterference in the economy changed in 1968 with the advent of the revolutionary government. This government believed

that its active economic role was justified because too many people and areas of Panama had not enjoyed the benefits of economic growth, too many rural people remained poor and were ignored by the government, international markets had not been developed for the country's goods and services, and insufficient investments had been made in agriculture and infrastructure.

The government also believed that Panama had a comparative advantage in international trade and services which could be exploited best by the metropolitan area--if supported by increased public investment--to produce an economic surplus. If the surplus then were invested in the rest of the country, it would produce sufficient growth to reduce glaring spatial income disparities. The government expected that development of the rural areas would slow down migration to Panama City, raise rural incomes--especially those of the poor--and integrate the economy more closely by decentralizing industry and services.

In the rural sector, health and education services, infrastructure (especially roads) and a major land reform emphasizing collective farms (asentamientos) were initiated. While health and education expansion programs were relatively successful in both urban and rural areas, the agricultural programs did not experience the same successes.

Because of the government's conviction that Panama had a comparative advantage in banking, international commerce and other export-oriented industries, it invested in a new airport, convention center, and the expansion of the Free Zone. In addition, new banking legislation was designed to improve Panama's attraction as an Eurocurrency banking center.

During the early 1970s, the government became involved in production activities (e.g., sugar and cement) that competed with those of

the private sector. Also, it purchased private telephone and power utility companies. The most controversial enterprises acquired by the state were agroindustries in citrus, sugar and bananas, the inefficient operation of which continues to plague the government.

The government made major policy changes in the employer-employee relationship and in price, tax, export and import-control procedures. The goal was to protect consumers and raise wages. Labor and housing legislation of 1972 and price controls were designed with this goal in mind, but, according to the private sector, raised costs and held down profits. At the same time, the construction and commerce sectors grew rapidly, but overextended themselves financially through easy credit and speculation.

By 1973-1974, the Panamanian economy was beleaguered by serious problems: canal tonnage had leveled out; import substitution had become more difficult; two of the most important sectors, construction and commerce, were overextended; and government policies alienated the private sector, thereby, inhibiting investments that could have replaced the traditional stimulators (canal traffic and import substitution) of the economy.

During a period of steady international economic growth, the country might have muddled through and been able to cope with these problems. Unfortunately, when the world turmoil and economic slow-down created by the oil crisis of 1974 was added to the list of the country's economic woes, a series of events were unleashed which led to the worst recession Panama had experienced since 1944.

Panama's slide into the 1974-1977 recession was initiated by the weakening world demand for Panamanian goods and services resulting from the oil price increase in 1974. As domestic demand fell, in reaction

to reduced foreign demand, the financially strapped construction and commerce sectors encountered difficulties. Confidence rapidly eroded. When the banks reacted and imposed a virtual moratorium on credits, the construction industry collapsed and the commerce sector was forced to retrench, sending shock waves through the economy.

The combination of events in 1974 led to a sharp decline in the GDP growth rate (2.6%) and private investment (16.0%).<sup>1/</sup> To fill the resource gap left by the private sector, in 1975, the GOP increased public investments by 94% and total investments by 10%, at the same time that private investment was falling 24%. In 1976, public and total investments again increased another 10%, but private investment remained constant. Unfortunately, the public investment programs had little effect on domestic output and employment because they were capital intensive, they had a large import component, they required long gestation periods, and many had low or negative rates of return. Also, the large expenditures led to an onerous debt burden (96% of GDP) which forced government to reduce its public spending and to realize that it was necessary to take actions to reattract private investment if the economy was to receive the investment funds needed for future growth.

In 1976, private investment was 36% lower than in 1973--a fall from 20% of GDP to 13%. Public investment rose 121% during the same period, representing 15% of GDP--double the 7% figure in 1973. Output remained virtually constant for the 1974-76 period, and employment was some 16,000 less than it had been in 1974.

The impact of the fiscal policy pursued during the 1975-76

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<sup>1/</sup> All comparisons are in real terms, based on constant 1960 dollars.

period was not economic revival, but an unsustainable, high public-sector deficit of 18.5% of GDP in 1976, an increase in total public debt from \$800 million in 1974 (44% of GDP) to 1.5 billion in 1976 (75% of GDP), and a deterioration of the current account of the balance of payments.

In late 1976, in an attempt to stimulate private investment, the government temporarily suspended collective bargaining and the provisions of the 1972 Labor Code that had severely constrained private investment decisions: existing contracts were extended for a two-year period, and salaries in the public sector were frozen. Nevertheless, private investment failed to respond in 1977 as profitability and capacity-utilization remained low (presumably because of GOP pricing policies), access to credit limited, and investor confidence weak, with the future clouded by the uncertainties surrounding the canal negotiations. Public-sector investment fell by 7%, while private investment plummeted by 46% from 1976 values. Fortunately, a decline in the rate of inflation boosted private consumption, which increased in real terms for the first time in three years, and propelled the growth rate of the economy to 4.5%, while the current account deficit in the balance of payments was reduced to the equivalent of 7% of GDP.

The failure of private investment response to the government's initiatives caused the GOP to abandon the adjustment effort in 1978 and to sharply increase expenditure on employment-creating activities. This policy was designed to maintain social calm in the face of rising unemployment and the debates over the Canal Treaties. In the absence of revenue measures and due to a large operating deficit of the state sugar corporation, the changes in fiscal stance caused the overall deficit of the public sector to increase to over 15% GDP, the external public debt to rise to an unprecedented 82% of

GDP (\$1.9 billion) and total public debt (all held in dollars) to rise to 96% of GDP (\$2.4 billion). Meanwhile, private consumption again stagnated, but private investment increased for the first time since 1973. This moderate but significant upturn in 1978 probably was a response to an increase in private consumption the previous year, the resumption of domestic lending by banks, and the successful conclusion of the canal negotiations. Output grew by 6% in 1978, but the increasing pressures of domestic demand, combined with a sharp increase in interest payments on the external public debt, caused a worsening of the current account deficit in the balance of payments to over 9% of GDP.

In 1979, the economy continued to improve, reaching a remarkable 7% real growth rate,<sup>1/</sup> apparently resulting from pent-up consumer demand, as private consumption continued its recovery with a 16% increase while public-sector consumption went up only 5%. Private investment was up 20%, though overall investment was down, as public investment fell by 36% as a result of belt tightening by the central government. Agricultural production declined for the second consecutive year, but the manufacturing industry sector made a substantial recovery by more than doubling its rate of change (14.9%) from the previous year. Wholesale and retail trade continued growing at a steady 14%,

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<sup>1/</sup> In late 1980, official GDP growth rates for 1977, 1978 and 1979 were revised from 3.4% to 4.6%, 2.7% to 6.5% and 5.6% to 7.0%, respectively. We do not question the revision for 1979 other than to wonder about the curious change in three years of statistics during a period when the preliminary data indicated that the economy was performing at a low level--which many persons perceived to be the case. However, if the higher 1979 rate is correct and is compared to the official increase in the unemployment figure for that year, the economy, as it is currently structured, will have to grow at a rate in excess of 7.0% (rather than 5.6%) in order to overcome the unemployment problem (the very argument we develop later in this text).

while construction registered a modest 8.2% increase. Employment made modest gains for the second straight year. On the demand side, there were some mildly encouraging signs that private investment was beginning to recover, though activity was confined to construction and to the Colon Free Zone. Reflecting these trends, bank deposits and bank-credit expansion to the private sector--a good indicator of investment activity in Panama--advanced in real terms for the first time since 1973.

The overall public-sector deficit (for both the Central Government and the autonomous agencies) was reduced from \$365 million in 1978 to \$304 million in 1979--approximately 11% of GDP. However, the current account deficit of the balance of payments rose for the second straight year to \$314 million, an increase of almost \$100 million. The external debt was \$2.0 billion, with total public debt at \$2.6 billion (93% of GDP).

b. Decade of the 1980s

Only second-quarter data are available to assess the performance of the economy in 1980. While no specific conclusions can be reached, there is every indication that the economy continued to grow, probably at a rate slightly less than the 7% in 1979. Second-quarter data show that manufacturing industries and construction experienced substantial growth, with inflation continuing at the 14% rate of 1979. Total public debt is estimated to be nearly \$3 billion as of December 31, 1980. For 1981, the economy is expected to grow at about 5%, but could begin to slow down toward the end of the year if oil prices or interest rates continue to rise, or if inventories become too large. The critical external unknown is the availability of foreign credit, which the GOP traditionally uses to finance its investment budget. A loan for \$150 million was successfully negotiated toward the end

of 1980. However, according to some international banking sources, there may be a growing reluctance on the part of the banks to continue loaning to the government. Further, oil price increases and an international credit squeeze might well restrict the funds available to Panama.

The IMF is very optimistic about the GOP's ability to solve its problems, citing as reasons: the tax measures adopted in 1980 which, it is estimated, produced the first substantial savings in the Central Government's current account in several years (\$10 million), and should help bring financial stability in the future; the apparent commitment of the GOP to deal with the inefficient state businesses; the apparent commitment to a more realistic pricing policy, as evidenced by the price changes allowed for some products in early 1980; and a study to be undertaken with IDB to examine the country's industrial policy in order to determine the most appropriate plan of action for stimulating industrial development.

It is yet too early to know if a 5-7% or higher growth rate is sustainable. Most of the impetus for recovery clearly has come from pent-up demand, the repatriation of funds, and some reactions to this on the supply side. What is certain is that with the constraints placed on its own future spending by large public debt, the GOP must depend upon the private sector in the future to stimulate the economy. While investor confidence seems to be returning, in spite of continued non-resolution of the Labor Code and pricing problems, it is too soon to know if the private sector will provide the investment needed to stimulate the economy in the future.

The GOP has taken an active role in supporting projects which directly influence industrial development. In 1976, a financial intermediary, COFINA, was formed to provide production credit to the private sector. In 1979,

the GOP established an office to attract light industry to the Free Zone. And, in 1980, the IBRD \$120 million Colon Urban Development project was begun. It is to be financed by the IBRD, the Industrial Bank of Japan and the GOP. The projects revolves around the enlargement of the Free Zone: new firms will enter and new jobs will be created. Housing and other social improvements will occur.

As helpful as these discrete GOP interventions are, the most important action taken to date by the GOP to stimulate investment occurred in 1980 when it formed a tripartite commission consisting of representatives from the government, the business community, and labor in order to produce a Labor Code acceptable to all three parties. Although the commission's time period expired without an agreement being reached, the parting was amicable and, hence, the group may reconvene to try again to resolve the differences.

The economic development importance of resolving the labor-code and pricing-policy issues and disagreements is substantial. For, as positive as the GOP's discreet project actions may be, and as positive as the growth of the economy has been through 1979 and 1980, it is difficult to foresee resumed economic growth on the order of the 7% achieved by the economy for almost every year from 1955-74 if the Labor Code and pricing issues are not resolved to the benefit of both the producer and the consumer. And even with these issues resolved, the slow growth predicted in the industrialized countries for the next few years may make growth difficult under any conditions. While there will be economic growth even if the Labor Code and pricing policies are not changed, because some enterprises or sectors are less affected by them than others, it is probable that the growth will be less rapid than otherwise would occur. If the issues are left unresolved, investors will be reluctant

to invest in new enterprises or to expand existing ones.

c. Impact of Canal Transition on Panamanian Economy

A recent study conducted by the Mission revealed that, by 1985, Panama will begin to receive approximately \$118 million in extra annual net revenues from the Canal as a result of the Canal Treaties. The increase in revenues comes from the payments (about \$75 million) directly related to the Canal's operation and the transfer to Panama of various activities: principally the ports, railroad, public and retailing activities formerly handled by the Panama Canal Company. These activities also include the Federal Aviation Administration, the Smithsonian activities, and the commercial and non-commercial private sector.

The impact on Panamanian employment will be minimal, according to the study, since most of the change will reflect merely a change of employer. The steady displacement of U.S. employees by Panamanian employees called for in the Treaties is offset by the likelihood that the number of Panamanian positions lost by the elimination of Canal organization retailing operations will be only partially recouped by presumed expansion of retail employment in Panama to accommodate increased U.S. personal spending in Panama. This, of course, does not take into account the potential benefit to Panamanian employment from the development of territory turned over to Panama under the Treaties.

An important, yet unknown, consideration will be the cost of maintenance of the newly acquired fiscal plant in the Canal Area. For example, unexpected emergency repairs to the Balboa and Cristobal ports and related facilities have had to be made, and the railroad will require considerable upgrading. If these costs rise above planned levels, the capital requirements

may exceed those received from the transition.

d. Output and Employment by Sector

Table A of the Annex presents employment and Gross Domestic Product (GDP) data by sectors for 1960 and 1979. The changes occurring in the service and agriculture sectors present an interesting contrast of the changing economy over the twenty-year period. The service sector's share of GDP rose from 40% in 1960 to 48% in 1979. During the period, the sector created 129,000 new jobs, thereby raising its share of total employment from 24% in 1960 to 38% in 1979. In contrast, the agriculture sector's share of GDP fell from 24% (1960) to 14% (1979), and its share of employment fell from 51% (1960) of the labor force to 29% (1979).

Between 1960 and 1979, Panama's economy produced 227,000 new jobs. Of this total change, 57% occurred in services 19% in commerce, 13% in manufacturing and 10% in construction. If the unexplained large increase in agricultural in 1979 is ignored (the issue is discussed in section 3-a), the employment in agriculture would have fallen by some 6,000 jobs over the twenty-year period.

The employment/output coefficients by sector from 1960 through 1978 are presented in Table B. Several conclusions can be drawn from the data: the economy tended to become more capital intensive in the 1970s; and, in the 1970-78 period, finance and related services and services in general produced a greater percentage increase in employment per percentage increase in sector output than any other sector.

2. Population Growth: Labor Force and Spatial Impacts

The annual natural population growth rate fell from over 3% during the late sixties to an estimated 2.4% in 1979. Preliminary results

of the 1980 census indicate that the annual growth rate for the entire decade of the 1970s was 2.5%. Due to this significant reduction in population increase, the Panamanian census bureau has revised population projections to the year 2000, downward from the range 3.0 to 3.6 million to 2.6 to 3.3 million, with most evidence pointing to 3.0 million.

As a result of the declining birth rate, the economically active population (EAP), generally defined as a percentage of those in the age group 15 and above will continue to grow significantly faster than the non-working population (those under 15 and over 64). In 1970, the EAP was 53% of the population; by the year 2000 it is likely to be in the 63-67% range. In absolute terms, it will probably double between 1975 and 2000 from 537,000 to 1.1 million. (The potential problems this increasing labor supply is creating for the Panamanian economy are discussed in section 3-d.)

The other key aspect of Panama's population growth has been and will continue to be its increasing urbanization, particularly the growing concentration of the population in the Panama City-Colon metropolitan corridor. The 1980 census underscored the phenomenon of population concentration during the 1970s in the provinces of Panama and Colon. The population increase of 44% in the province of Panama was much greater than in other provinces. The change was less dramatic in the province of Colon, but was, nevertheless, large enough to put it in second place. Only Bocas del Toro and Chiriqui experienced changes similar to that of Colon.

Using a definition of urban which includes agglomerations of urban functions rather than mere population size, urban areas are projected to grow three to four times as fast as rural areas during the 1980-2000 period, with the metropolitan area expected to continue its primacy by having some 60% of the population by the end of the century. By the year 2000, Panama is projected

to be over 70% urbanized, with a rural population increasing only from 784,000 in 1980 to 860,000 in 2000.

Population Trends<sup>1/</sup>

<u>Year</u>	<u>Total Population</u>	<u>Metropolitan Population</u>	<u>Other Urban Pop.</u>	<u>Total Urban Pop.</u>	<u>Total Rural Pop.</u>	<u>Urb. as % of total Pop.</u>	<u>Metropolitan as % of Total Pop.</u>
1950	805,285	284,000	51,300	335,300	469,985	42%	35%
1960	1,075,541	411,300	77,000	488,300	587,241	45%	38%
1970	1,428,082	623,000	116,000	739,000	689,082	52%	44%
1980	1,830,175	889,000	157,000	1,046,000	784,175	57%	49%
1990	2,320,022	1,254,022	221,464	1,475,486	844,536	64%	54%
2000	2,940,977	1,768,922	312,389	2,081,321	859,656	71%	60%

1/ Calculations are based on official government statistics from the Census and Statistics Division of the Controller General and work done by Fox, Robert W., and Jerrold W. Hugguet, Population and Urban Trends in Central America and Panama, Inter-American Development Bank, Washington, D.C., 1977.

3. The Nature of the Employment Problem

a. Recent Trends

While there is widespread agreement that unemployment in Panama has increased significantly since 1974, there is disagreement on how high recent unemployment rates have been. Official data, based on annual surveys conducted since 1963, show that the national unemployment rate rose from 5.8% in 1974 to 8.7% in 1977, improved slightly to 8.1% in 1978, and then rose to 8.8% in 1979. (See Column 7, Table E.) Few, if any, observers, however, believe these figures are realistic. Estimates of 15-20% are common, and, in Colon, the current unemployment rate is unofficially estimated

at 25-35%, contrasted with IBRD's estimated 17.4% in 1970. A survey of four poor areas in Panama City and Colon, sponsored by USAID/Panama in late 1979 and early 1980, found unemployment rates of more than 24%; among low-income families the figure was almost 40%.

The GOP, in its 1981-85 National Development Plan working papers, which have just now been made available, recognizes that because of the substantial growth in what it calls "hidden" unemployment during 1975-78, "open" unemployment previously used as the measure of national unemployment may have understated "total" unemployment. It concludes, however, that with the 7% GDP growth rate in 1979, the hidden, or discouraged, worker phenomenon no longer exists and that "open" and "total" unemployment are synonymous. Column 8 of Table E shows the "total" employment figure, including the hidden portion, as estimated by the GOP for the 1975-78 period.

It is the Mission's conclusion, however, that these adjustments still do not properly reflect the existing unemployment situation. A more detailed discussion of the problems with the employment data will be found in the revised Employment Strategy paper being prepared by the Mission. The document's major conclusion is that the data, even with the "hidden" adjustment, seem to understate the recent growth of the EAP and overstate the "discouraged worker" effects, i.e., the withdrawal from the EAP of persons who have given up looking for work because of depressed economic conditions. In other words, the data appear to consider more people as out of the EAP--and, therefore, neither employed nor unemployed--than seems warranted.

Until there is compelling evidence to the contrary, the Mission believes the official 1967-74 EAP rates shown in Table E closely represent the true percentage of people in the 15-year-old-and-above category, who should be considered as actively seeking work. Table C, then presents the

Mission's estimate of unemployment, based on a constant 60% EAP rate for the 1970-79 period. It yields unemployment rates similar to official data for the 1970-74 period, but rates which are considerably higher for the remainder of the decade. In addition to the EAP adjustments, the Mission has reduced the official 1978 and 1979 employment statistics because they contain at least 17,000 jobs under the Plan de Urgencia created by the GOP in 1978. Since these jobs were not created by the economy, and since it was evident as early as 1978 that the government could not keep these people employed indefinitely (the plan was formally abandoned in March 1980), the official employment figures have been deemed artificially high, and, thus, have been reduced by the 17,000 figure. Here we purposely use a lower figure for the Plan de Urgencia group than in last year's CDSS because, since then, we have obtained estimates for this group ranging between 17,000 and 25,000. If the higher figure is correct, then our adjusted figures shown in Tables C and D, of course, would also be higher.

Finally, discussions with various GOP officials involved in the collection and reporting of employment data lead the Mission to question the quality of the data-collection process over the last few years. As an example, review of Tables C and E reveals that the economy purportedly produced 27,000 jobs in 1979. While the Mission cannot refute the figure, and while the large change may be explained by the combination of a relatively large 7% GDP growth rate based upon a relatively depressed economy, it is a fact that prior to 1979 the economy had created 20,000 or more jobs only three times: in 1966, 1968 and 1974. Except for these three periods, the economy historically has tended to produce 12,000-16,000 new jobs annually. Official data for 1979 reveal that employment in the agricultural sector (comprising agriculture, hunting, forestry and fishing) increased by 10,680, a 7.4% increase over the previous

year. It is difficult to accept this figure, however, in light of the decline in agricultural employment and the negative real growth of the agricultural sector for the past two years. If we assume that there was no increase in agricultural employment for 1979 (to us a reasonable assumption given historical information), the total number of new jobs created by the economy would be approximately 17,000--a plausible figure. Adding this adjustment to Table C produces an unemployment figure of 17%, which is consistent with the pattern of the two previous years. Until this assumed error is verified, we believe that the pattern will hold and that the next several years will see employment grow in the 12,000-16,000 range, which will be insufficient to employ the new workers coming into the work force (as discussed in detail in the "Unemployment Causes and Magnitude" sub-section).

Making the same adjustments to the metropolitan area as were made for the national data, the Mission estimates that the unemployment rates in the metropolitan corridor during 1978 and 1979 were approximately 20.2% and 17.3%, respectively.

As a final note on the process and problems of estimating unemployment in Panama, a comment is warranted on the large difference between the Mission and the GOP estimates of the 1979 unemployment level. The larger unemployment rates for 1975-79 estimated by the Mission lead to a total unemployment figure of 92,400 for 1979, nearly double the official GOP figure of 50,700. A different approach than described above can be used to check the validity of these figures. Table C indicates that employment did not regain the 1974 level of 487,000 until some time in 1979; hence, one could say that all those people desiring employment, i.e., the increase in EAP, (80,000) during the period 1975-79 were unable to find work.<sup>1/</sup> Adding the

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<sup>1/</sup> Calculated by subtracting the number of people in the 15-and-above population group in 1974 (869,500) from those in 1979 (1,002,900), and multiplying the difference (133,400) by the labor-participation rate (.6).

34,300 unemployment level of 1974 gives an estimated total unemployment of 114,300 for 1979. Seen in this context, the Mission's estimate of 92,400 appears to be more reasonable than the GOP's official 50,200 figure, which, according to recent newspaper reports, has been unofficially restated by government officials to be 100,000. Based on its analysis, therefore, the Mission concludes that there are at least 92,000 unemployed, and probably 100,000.

The employment problem is not limited to unemployment, however, because it does not consider those who, although employed, make less than what would be considered a subsistence wage, either because they are only able to find part-time work or because their wages for full-time work are too low. The GOP estimates that 14-19% of the work force was underemployed in 1975 and that this is a critical problem in the agricultural sector. A 1974 study by ILO/PREALC estimated that 30-50% of the economically active population was underemployed. While it may be difficult for people to agree on the precise unemployment and underemployment rates, it is obvious that unemployment and underemployment are serious problems in Panama.

b. Disaggregating the National Unemployment Figure

To develop appropriate strategies for reducing unemployment, it is helpful to disaggregate the total national unemployment figure by sex, age, economic sector and geographic area. Unfortunately, this disaggregation can be done only with the official data, which we said are too low. It is not clear to what extent "proper" adjustments would change the relative importance of the various subgroups as indicated by the GOP data. With that caveat and the assumption that the official figures have not been distorted too much, unemployment by sex, age, economic sector and geographic area are

discussed below.<sup>1/</sup>

Of the total number of women in the 15-and-above population group, only 35% are economically active. For men, the percentage is 81%. Hence, in 1979, women represented only 31% of the EAP, but accounted for 47% of the unemployed.

For 1976 (the last year for which such data are available) disaggregated data reveal:

- a) For the entire country, of total unemployed, 21.8% were 15-19 years old and 31.5% were 20-24. Therefore, 53.3% of the open unemployed were young (15-24).
- b) For the entire country, of both age groups, 14.4% of 15-19 and 13.4% of 20-24 were unemployed. These are more than double the 6.7% national rate.
- c) For the entire country, of both age groups, 21.7% of women ages 15-19 and 16.6% in 20-24 were unemployed. For men the rates were 11.0% and 11.7%, respectively.
- d) In the metropolitan corridor, 19.4% in the age group 15-19 and 17.7% of those 20-24 were unemployed. For the rest of the country, the rates were 10.4% and 6.7%.

Unfortunately, the disaggregated data for the distribution of unemployment by economic sector do not allow us to draw any reliable conclusions because there is such a large number of newly unemployed workers that are not assigned to any sector. Clearly, more research is needed to determine the sector orientation and skill levels of the unemployed.

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<sup>1/</sup> Detailed data will appear in the forthcoming Employment Strategy paper.

As for the geographic area, employment data for 1979 are available only for the metropolitan area; 1978 data are available for all regions. With an unemployment rate officially estimated at 11.9% in 1979, the metropolitan area contained 80.2% of all the reported unemployment, an increase of 5.0% over 1978. At 10.4%, the metropolitan area unemployment rate for 1978 was slightly less than for 1979 (11.9%). In other parts of the country, the official 1978 unemployment rates were considerably lower than in the metropolitan area, ranging from 3.2% in the eastern region to 5.1% in the central region.

Although underemployment is more a rural than an urban phenomenon, as alluded to on page 17, PREALC estimates that 20-30% of the labor force in the metropolitan area is underemployed. Most of these people are concentrated in the service sector, where the number of jobs has increased appreciably over the last decade, where most of the unskilled and uneducated workers are located (especially in manual and domestic work), where wages are low and increase very little.<sup>1/</sup>

Unemployment and underemployment are particularly high among women and the young. Opportunities for off-farm employment for rural women in particular are minimal, causing many to migrate to the cities. Female employment in urban Panama is concentrated overwhelmingly in the service sector, where wages tend to be lower than in other sectors and where wages paid to women are lower than those for males and increase at a much slower rate.

c. The Relationship Between Unemployment and Poverty; Geographic Distribution of Poor

The poverty-line analysis discussed in Part I-B and work done

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<sup>1/</sup> Between 1974 and 1976, average weekly wages in the non-government services decline by 1%. Wages in commerce and industry, on the other hand, increased 5% and 16%, respectively.

by Allan Broehl (see Table F) develop an urban/rural poverty distribution which indicates that 60% of all poor families (defined as living below a specified subsistence level) are found in the rural areas. Of the 40% who live in the urban areas, 31% live in the metropolitan corridor, with the remaining 9% scattered among the other smaller urban areas. Thus, while 80% of the unemployed live in the metropolitan corridor,<sup>1/</sup> only 31% of poor families are found there.<sup>2/</sup> Although there may be some problems of data comparability, the implication of these two rates is too strong to ignore: unemployment does not necessarily imply poverty.

But what of the distribution of the number of poor families over time? If we assume that the same current ratio between urban poverty (40%) and urbanization (58%) will exist in the year 2000, we could conclude that, as the country becomes more urban (71%), the percent of poor families living in urban below the poverty line will rise to nearly 50% in the urban areas. In other words, as Panama becomes more urbanized, urban and rural areas will tend to contain about equal numbers of poor families.

d. Unemployment Causes and Magnitude

There are three major causes of the high unemployment problem currently affecting Panama which threaten to make it a permanent, ever increasing condition for the next 15-20 years. The first, most obvious and dramatic cause, as we discussed above, has been the recession of 1975-77, which followed the worldwide economic dislocation resulting from the sharp oil price increases of 1974. Not until 1979 did the economy recoup the

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<sup>1/</sup> 1979 data.

<sup>2/</sup> 1975 data.

26,000 jobs lost in 1975 as a result of the recession, and then only barely exceeded the employment level it had obtained five years earlier. The two other causes were and continue to be more subtle: an increasing number of people in the 15-64 working age group and an economic structure unable to absorb these larger numbers of people perhaps until the 1990s.

Examination of the data indicates that, in the 1960-71 period, the economy (with the exception of two high and low years) was producing between 12,000 and 16,000 jobs each year while the EAP was providing some 10,000 to 16,000 job seekers. With this close similarity in incremental supply and demand for jobs, the country's unemployment rate hovered at the 5-7% level. By 1973-1974, however, the size of the 15-64 age group and, consequently, the number of people seeking work rose to a point where Panama's increasingly capital-intensive economy could not produce enough jobs to keep the unemployment rate in the customary 7% range.

The change in the ability of the economy to employ those seeking work is illustrated in Table G. The presentation in this Table of the supply and demand for labor is based on average figures and, thus, suffers all the sins of averages. Nevertheless, it provides a simple, graphic picture of the relationship between people coming into the job market and the economy's ability to absorb them during the 1960-2000 period. The assumption underlying its results are discussed in the following paragraphs.

If we take the official projected population figures for the 15-64 age group during the 1968-2000 period, make a reasonable assumption about the number of people actively seeking work, and assume that 90% of these will be employed, we can establish the number of jobs the economy must

provide if a 10% unemployment<sup>1/</sup> rate is to be met.<sup>2/</sup> This information is found in columns 2, 3 and 4 of Table G. If we then use historical trend data to estimate the number of jobs the economy will produce under a specific GDP growth rate, we can see the impact of the increasing size of the 15-64 age group upon the current and future unemployment situation. Studies by the Panamanian economic researcher, Guillermo Chapman, and the Mission of the 1964-79 period indicate that for every one-percent change in GDP, employment rose by approximately 0.46% for the 1960-75 period and should rise by 0.42% for the 1975-2000 period. If we assume that the economy grows at 7% annually (a level achieved many times up to 1975), employment would rise annually by 3.22% ( $7\% \times .46$ ) during 1960-75 and 2.94% ( $7\% \times .42$ ) thereafter. In addition to the 7%, 0.46% and 0.42% assumptions, we have assumed that 60% of those in the 15-64 group will actively seek work (the norm prior to 1975), which the Mission and others believe more nearly reflects the actual situation. Column 5, reveals whether the economy can employ at least 90% of the new job entrants.

As a comparison of columns 3 and 4 illustrates, from some time in the early 1970s to a point in the late 1980s, a Panamanian economy growing at 6%-8% could not provide enough jobs to keep the unemployment of the new job seekers at 10%, much less reduce the unemployment pool that

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<sup>1/</sup> While higher than the 5-7% range of the 1960s and the 5% target unemployment rate in the draft 1981-85 National Development Plan, the 10% target is illustrative of how the economy must perform to reach even an intermediate level. Were the 5% target used, the demands upon the economy to generate jobs would be proportionally greater.

<sup>2/</sup> Due to retirements, an economy does not need to create new jobs for all the 90%. However, since retirements make up such a small percentage of total existing jobs, we have ignored this phenomenon because its inclusion would not affect substantially our argument.

resulted from the mid-1970 recession. Only in the 1990s does the economy begin to provide more job opportunities than are sought by the 15-64 age group. Hence, only in the 1990s will the economy begin to resolve the large unemployment problem inherited in the 1970s, which, as we noted earlier, was estimated to be slightly over 100,000 at the end of 1979.

The strong implication of these results is that if the economy does not obtain a 7% or higher growth rate, the unemployment will likely become more acute soon. Chapman in his study carries out a series of sensitivity analyses on the economic growth and labor-intensive variables to determine their potential impact. An EAP-participation rate of 0.60 is assumed as in the above analysis. Table H summarizes the highlights of the study. As the Table reveals, unless the economic structure become more labor intensive, with a .5 or .6 employment output coefficient, and unless GDP grows by 6%-8%, the economy could suffer unemployment rates ranging from 10% to 29.5% over the 20-year period from 1980 to 2000.<sup>1/</sup> With the projected, continued poor economic performance of the rest of the world, it is doubtful that Panama can achieve, for any sustained period, the growth rates needed to solve the unemployment problem under the existing relatively capital-intensive economic structure. A move to more labor-intensive techniques in the country's production processes would, thus, appear to be necessary.

#### 4. Agriculture

Panama's agricultural economy is characterized by two extreme systems of production and marketing. On the one hand, the commercial crop sector uses modern agricultural practices and is linked to national and, in

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<sup>1/</sup> This is one reason why AID has chosen increased employment intensity as a target of its strategy.

some instances, international markets. On the other hand, the traditional subsistence sector employs antiquated technologies and is linked to local markets. Most of the rural poor are engaged in subsistence agriculture, have limited access to production resources, have no legal title to the land they work, receive no institutional credit, and utilize very rudimentary production methods with shifting slash-and-burn agricultural practices. This pattern of economic dualism is typical in many Latin American countries, but in Panama it is particularly striking.

Taken as a whole, the agricultural sector expanded in the 1960s at about 5% per annum in real terms, with most of this growth being generated by export crops. Production of bananas increased significantly and the international market became strong, while crops for domestic consumption grew at only half the overall rate, causing shortages in the national market and forcing imports of basic foodstuffs. Since the end of the 1960s, however, the growth rate of both export and local crop production has declined because of a combination of bad weather and political and economic uncertainties.

The growth in domestic crop production has also been affected because the research and extension service of the Ministry of Agricultural Development (MIDA) has not reached most private producers. Since the early 1970s, MIDA's credit, technical assistance and other services have been channelled mainly to government-organized farming communities. A recent World Bank report identifies another element affecting the growth in domestic production: the growing scarcity of readily accessible land, particularly on the Pacific slope, which has supported much of Panama's agricultural expansion. Not only is new land becoming increasingly scarce, but previously cropped land is declining in fertility from heavy use and neglect of soil

conservation. Land in crops actually declined in the period 1960-1979, while pasture land increased.

Panama has little good, flat land relatively suitable for mechanized agriculture or intensive cattle raising.<sup>1/</sup> This situation partially accounts for the historical pattern of settlement and land use, the generally low productivity of land and, in the case of traditional cropping systems, of labor, and the large number of migratory subsistence farmers who have compounded soil problems by destroying the forests and causing devastating erosion.

Beginning in the early 1970s, the GOP initiated a price-support and credit-expansion policy in an attempt to stimulate overall agricultural production, with the particular goal of attaining self-sufficiency in the basic staples of rice, corn and beans. Although there was initial response to these incentives, the past three years have seen virtually stable support prices, with production again stagnating or declining. Support prices were raised in 1980, but not in proportion to production costs. As a result, statistical analysis shows the cost-price relationship of food and fiber production continuing to decline. Producers are caught in a cost-price squeeze.

The agricultural sector today is burdened with many domestic agricultural products priced above world market levels, and the country is faced with the prospect of an ever increasing need to import basic staples. The country still imports some 30% of its bean consumption, 20-25% of its corn

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<sup>1/</sup> Most of the terrain is mountainous and the majority (80%) of the soils are unsuitable for cultivation (e.g., types VI, VII and VIII).

consumption and 30% of its milk consumption. Projections indicate that by 1985 Panama may need to import about 27% of its corn and 39% of its beans annually. Other crops show a similar trend.

Panama's current low yields and high-production costs indicate that the quantity of agricultural products imported can at least be reduced, if not eliminated, by increasing the sector's productivity. Compared to other Central American countries, Panama has extremely low yields for beans, corn, rice and sugar cane, and there is every reason to believe that the same disparity exists for other crops as well. Comparative data indicate that Panama's average yields for corn are 40% lower than the average yields for all Central America. The corresponding figures for beans, rice and sugar are 40%, 19% and 19%, respectively. Poor climate and soil conditions notwithstanding, there is room for considerable improvement.

Improved crop yields could not only increase the output of lands currently under production, but should also lead to increased hectareage in production due to increased profitability per hectare. Thus, a program to increase yields and reduce the costs of production through better varieties and more appropriate techniques appears to be one of the most promising solutions for reducing dependence on imported agricultural products and for providing a more efficient allocation of the country's resources.

## B. Analytical Description of the Poor

### 1. Summary

Of Panama's 1.8 million persons, approximately 715,000 (or 39%) are poor, of which 384,000 (or 21%) are extremely poor, i.e., earning less money than is required to provide for basic human needs. While members of

these two groups are found throughout the country, most live in the central and western provinces of Veraguas and Chiriqui and in the Panama City-Colon metropolitan area.

Most rural poor are illiterate, live in houses that lack electricity, potable water and sanitary facilities, are isolated, and receive few health services. Also, many of their children suffer from malnutrition and disease, which contribute to an infant mortality rate that is considerably higher than the national average.

The urban poor receive some of the basic services denied their rural brethren, but share the same problem of inadequate housing. In addition, the urban poor live in extremely crowded conditions, in many cases with only communal water sources and unsanitary waste disposal facilities. Many are unskilled, which partly explains why so many are unemployed or underemployed. In Panama's highly monetized, relatively high-cost economy, the urban poor are particularly subject to the negative aspects of economic fluctuation and inflation. The plight of the urban poor is steadily worsening because, inter alia, many unskilled people<sup>1/</sup> are migrating to the cities, adding to the rolls of the unemployed and the badly housed. As this segment of the urban population grows, the degree and complexity of their problems grow.

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<sup>1/</sup> The 1970 census shows 40% of the migrants 15 years and older had either no education whatever or an incomplete primary education.

2. Selected Socio-Economic Indicators

a. Poverty Line Analysis

Two levels of income are calculated for the country, adjusted for location and based on what it would roughly cost a family of five to purchase a basket of minimal goods and services. The first level, descriptive of 39% of the population, is the income barely adequate to provide for a family's basic needs. This income has been calculated in 1980 prices at \$589 per capita annually for Panama city and Colon, \$458 for the other urban centers and \$347 for the rural areas.

At the second level of income, descriptive of more than 20% of Panama's population, people live in extreme poverty, or in seriously deteriorating conditions. This extreme poverty line has been calculated at \$308 for the cities of Panama and Colon, \$239 for other urban areas, and \$182 for the rural areas. (See the FY 1981 CDSS for the methodology of this poverty line analysis.)

Application of this "poverty" and "extreme poverty" analysis to the estimated population distribution for 1978 yields the following data on population living in poverty:

	<u>Pop.</u> <u>Below</u> <u>Extreme</u> <u>(000s)</u>	<u>% of</u> <u>Natl.</u> <u>Pop.</u>	<u>Pop.</u> <u>Below</u> <u>Poverty</u> <u>(000s)</u>	<u>% of</u> <u>Natl.</u> <u>Pop.</u>	<u>Pop.</u> <u>Above</u> <u>Poverty</u> <u>(000s)</u>	<u>% of</u> <u>Natl.</u> <u>Pop.</u>	<u>Total</u> <u>Pop.</u> <u>(000s)</u>	<u>% of</u> <u>Natl.</u> <u>Pop.</u>
Total	384	21	714	39	1,111	61	1,826	100
Rural	245	13	434	24	333	18	767	42
Urban	139	8	280	15	778	43	1,059	58

b. Location of the Poor

In order to move from the more general description of poverty provided by the income distribution and poverty-line data to more location-specific and qualitative information, the Mission analyzed 1978 data regarding social indicators and access to services at the district level.<sup>1/</sup> For the rural areas, three key indicators--infant mortality, birth rate and illiteracy--were examined for each district in the country. These indicators were then compared to national averages.

Fourteen districts have the "least" level of satisfaction of basic needs, i.e., they are below national averages on all three key indicators. All are in the central and western regions and located in those provinces with the largest populations below the poverty line. Sixteen additional districts fall below the national averages on two of the three indicators and, thus, have serious deficiencies in the satisfaction of basic needs. Most of these districts also lie in the central and western regions. The major concentrations of poverty are in Veraguas province and neighboring districts in eastern Chiriqui, Cocle, Colon, Herrera and Los Santos.

The majority of these districts have a number of factors in common, including poor soils, mountainous terrain, highly dispersed population and a lack of access roads. The widespread poverty in these districts is further confirmed by a review of other indicators as well, such as housing conditions, water, sanitation and access to health services.<sup>2/</sup>

<sup>1/</sup> The country is divided into nine provinces and 65 districts. In addition, there is one special district set aside for the Cuna Indian tribe.

<sup>2/</sup> The Mission's current Rural Growth and Service Centers project (525-185) has activities in some of these districts, and the reprogrammed IRD project (525-186) will also be located in one of them (Soná). During the CDSS period, we will support agricultural productivity efforts in these same regions.

The lack of on-farm employment opportunities forces many rural dwellers to seek off-farm employment in small towns and secondary cities and in the metropolitan corridor which are unable to absorb these excess rural workers. The situation has been exacerbated by haphazard and uncontrolled development throughout the urban hierarchy. The metropolitan area, for example, is characterized by a low-density, sprawl-type pattern which has permitted development in ecologically sensitive areas on the periphery. This dispersed urban structure, which has caused excessive infrastructure costs, places substantial pressures on government institutions to provide and coordinate the educational, health, recreation, transportation and related services demanded.

The relative economic well-being of the metropolitan corridor<sup>1/</sup> makes it the preeminent target for employment-seeking rural migrants who historically have congregated at the urban fringe. The largest migrant settlement is San Miguelito, which has about 160,000 first-generation migrants. The urban poor are not necessarily recent migrants from rural areas. Second- and third-generation urban poor live in slums such as Chorrillo and Caledonia in Panama City, which have the same crowded and unsanitary living conditions and excessive rates of unemployment and underemployment as do the more recent migrant settlements.

Of special note in discussing the spatial aspects of poverty is the internal momentum of the urbanization process. Although rural-urban migration will continue to be an important component of urban growth, the natural increase within urban areas will account for almost two-thirds of

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<sup>1/</sup> Although median monthly family income in Panama City and Colon in 1976 was \$457 and \$434, respectively, well over 60% of the families in the poor barrios earn less than \$200 monthly, i.e., \$480 per capita annually.

future urban population growth. This fact presents both opportunities and problems for the GOP. While the provision of services for the poor and the measurement of program impacts will be much easier and more economical, the need for coordination and planning with the private sector and government agencies will place severe demands on the government's ability to avoid many of the foreseeable negative aspects of urban growth.

c. Housing

The total number of families that will need either new or upgraded shelters in the 1981-2000 period is 473,000, of whom 40%, or 189,200, will be families below the median-income level. Of the 473,000 families, 176,000 will live in rural areas, 97,000 will live in secondary cities, and 200,000 will live in the Panama City-Colon metropolitan area. These figures, when related to families below the median-income level, are as follows:

	PROJECTED EFFECTIVE DEMAND 1981-2000 (Families Below the Median)		
	<u>Rural Areas</u>	<u>Secondary Cities</u>	<u>Metropolitan Area</u>
New Shelters	10,000	18,800	44,000
Upgraded Shelters	<u>60,400</u>	<u>20,000</u>	<u>36,000</u>
Totals	70,400	38,800	80,000

It is estimated that \$1,792 million (using 1975 dollar value) will have to be invested during 1981-2000 to serve the projected basic shelter needs. Using the breakdown of investment needed for each of the areas mentioned above, and considering that 40% of such investment will be required for low-income families, the following shows the investment needed for this segment of the population:

INVESTMENT NEEDED DURING 1981-2000  
(To serve needs of low-income families)  
(US \$ millions)

	<u>Rural Areas</u>	<u>Secondary Cities</u>	<u>Metropolitan Area</u>
New Shelters	12.2	87.8	403.6
Upgraded Shelters	<u>34.5</u>	<u>47.0</u>	<u>166.7</u>
Totals	46.7	134.8	570.3

Although there are governmental institutions to identify, plan, finance, and implement projects that will satisfy the housing needs of the poor, these institutions are weak and have insufficient resources to make a significant impact on the problem. In addition, haphazard, uncontrolled urban growth has resulted in high public infrastructure costs and environmental degradation. The GOP has yet to consolidate and target its urban development activities and consider environmental needs when designing and developing its programs. Adding to the seriousness of the situation is the absence of the private sector in providing housing for the poor. The Ministry of Planning estimates that 93% of the housing sector's output is directed at high- and middle-income families, which represent only 16% of the total housing demand. In order to begin to meet the housing needs of the poor, GOP institutions will have to be strengthened administratively and financially, more efficient financial practices will have to be adopted, and a coordinated capital formation and flow strategy undertaken.

Progress has been made in strengthening the Ministry of Housing (MIVI), but its housing delivery capabilities are deficient, and it lacks the mechanisms that would enable it to coordinate its work with housing cooperatives, housing producers, and other public agencies--a condition that is especially

inimical to the poor. Particularly important is the need to extend MIVI's delivery services beyond the metropolitan area to the secondary cities and small towns.

C. Identification of the Causes of Poverty

The recent history of slow or negative economic growth is the major contributor to growing poverty in Panama. Following is a description of specific causes of poverty, many of which have contributed to the lack of growth and will tend to limit that growth in the future.

1. Role of Private Sector in Country's Economic Growth

The events of the 1975-1979 period--when private investment fell sharply, when government investment soared to record heights, and when public debt paralleled the upward spiral of government expenditure--suggest the critical role private investment must play in the Panamanian economy if sufficient and steady growth is to be achieved. As noted, the GOP's debt burden is constraining and will continue to hamper Panama's ability to finance future investment projects and, thereby, affect the level of economic growth. If private-sector investment does not replace the high public-sector investment of the 1975-1979 period and regain its pre-1975 position as the leader in new investment, the economy will encounter extremely difficult times, which can lead to the steady deterioration in per capita incomes and quality of life of all Panamanians, especially the poor.

Fortunately, some events during the 1978-1979 period appear to bode well for the economy: the GOP took concrete steps to assure the private sector that the latter has a central role to play in national development, and the private sector responded in 1979 by increasing its investment to the 1974 level. Although this trend is positive, it is too soon to predict with any

degree of confidence whether the Republic can expect increasing private-sector investment in the future.

## 2. Import Dependence and Limited Exports

In serving as a funnel for world commerce, Panama has allowed goods to move in and out of its borders freely, keeping import quotas for many articles at a minimum. While this obviously has benefited consumers and permitted the commercial sector to thrive, it has served as a deterrent to the development of import-substitution enterprises, and has limited opportunities for creating additional jobs.

As with most developing countries, Panama depends upon a few primary products (in this case, bananas, shrimp and sugar) as major foreign-exchange earners and, as a result, is plagued by the wide swings in prices that typically afflict these products. The price fluctuations have made sound planning and financing of development difficult and, at times, contributed to serious balance-of-payment problems. As noted above, the recent volatility of world sugar prices and production is an excellent example of the problems a narrow foreign-exchange-earning export base can create for a country. Fortunately, Panama is currently beginning to expand its exports of fish meal and oil, high quality clothing, and paper products (both primary and secondary), identifying markets for them and attracting needed private investment. This undertaking represents a difficult challenge because Panama's high-wage structure tends to make it less competitive in world markets.

## 3. Limited Natural Resource Base

Future prospects for productive use of the natural resource base are limited. Outside of the copper deposits in Tole--which may represent a major investment and, consequently, have a positive impact on the economy--

and coal deposits in the Rio Indio area, there are no other known mineral deposits with marketable potential. Poor soils and steeply sloping terrain make some parts of the country suitable primarily for natural forest and tree crops, with some areas suitable for cattle grazing. Increasing amounts of land, however, are being converted to inappropriate uses. Forests are being cut and burned by subsistence farmers to make way for small agricultural plots. Once the soils on these lands are exhausted, the farmers move on to other areas, often leaving the land open to further misuse by cattle ranchers, generally leading to severe erosion problems.

#### 4. Low Agricultural Productivity

There are several reasons for the low productivity of the land cultivated by Panamanian small farmers. Most of the small producers do not hold title to the land they occupy and, thus, lack incentives to make long-term investments to improve soil and water resources. Another reason is the use of antiquated agricultural technology, such as improper cultivating techniques, the failure to use fertilizers and proper varieties of seeds. While soils in Panama are low in fertility, as indicated above, this problem can be addressed, in part, by improved technology.

The annual volume of production in 1971 from a five-hectare or smaller farm yields an average income of approximately \$800 per farm or a \$160 per capita income (1978 prices). The value of actual outside farm sales, however, is far below that amount. Out of 43,500 small farms (under five hectares) in 1970/1971, 25,000 made no sales, and 18,000 had sales of less than \$500. More recent data from a 1977 district census of 1,700 farms show 80% of the farms with no sales, or sales of less than \$500.

Annual survey data obtained subsequent to the census of 1970 reveal that the area planted and the yields of rice and corn on small farms (under ten hectares) have increased. These yields, however, still remain 40% to 50% below those on large farms, and the increases have been insufficient to satisfy domestic consumption needs. As mentioned above, Panama will have to import ever-increasing quantities of basic grains and other foodstuffs unless farm productivity improves substantially.

#### 5. Inadequate Development of Human Resources

In spite of a concerted effort to expand access to services, which AID is supporting, low education and skill levels among the rural and urban poor continue and are constraints to alleviating poverty, because many poor are unprepared for employment in sectors that require a minimum of certain basic skills. Lacking skills holds down productivity by limiting opportunities for the rural poor to utilize better technologies and expand into new activities, while locking the urban poor into a limited array of employment opportunities, all in areas where wages and opportunities for advancement are low. Moreover, their deficient nutritional status is exacerbating the problem by affecting the physical and intellectual effectiveness of the poor. Since the majority of them must work in highly labor-intensive occupations, deficient nutritional status impairs the capacity to respond adequately, either on the job or in the school.

#### 6. Isolation

The rural areas have widely dispersed populations living in many small communities isolated from the rest of the country, primarily as a result of an inadequate all-weather road system connecting them to their

regional and administrative centers. Surveys reveal that small farmers consider expensive and unreliable transportation service to be the major obstacle to their entry into the money economy, thus restricting their income potential. With small farms comprising 40% of all farm families in the country, the potential income and production loss to these families and the economy is considerable. The experience of having produce rot at the roadside because of lack of timely transportation and the high cost of the transport that is provided, has led to the curtailment of production of many potentially remunerative crops.

Other consequences of isolation for the rural poor are inaccessibility to agricultural extension services, production credit, grain storage/processing centers, improved seed and plant material, fertilizers, and vital social services, with all the obvious negative impacts on agricultural productivity and general well-being.

#### D. Host Country Plans, Commitment and Progress

##### 1. Development Plan

The GOP has been committed to improving the lot of the poor since the current government came to power in 1968. This commitment has been manifested by, inter alia, expansion of educational and health services to the poor in the provinces, initiation of an agrarian reform program and promulgation of a new, decidedly pro-labor labor code.

This commitment is also reflected in the 1976-1980 National Development Plan. This Plan lists six major objectives: (1) increased popular participation and improved distribution of economic benefits; (2) accelerated, diversified, sustained economic growth; (3) greater regional integration; (4) more effective utilization of public finances; (5) strengthened public sector institutions; and (6) more autonomous and independent development.

The 1981-1985 National Development Plan is now being prepared by the Ministry of Planning. This Plan's objectives, released in preliminary form, are: (1) development of the country's resources; (2) reduction of dependence on (imported) oil; (3) increase in food production; and (4) incorporation of the active population in the development process to avoid any further increase in the unemployment rate. Despite the wording of the last objective, the Mission is convinced that the commitment is not just to hold unemployment at its present rate, but actually to reduce it substantially.

## 2. Performance

The Government, with strong commitment and significantly increased public investment, has made great strides towards achieving many of its objectives. In general, the GOP's social programs have had considerable success, whereas its production programs have produced mixed results.

With regard to social objectives, progress on the national level as measured by key indicators has been impressive and is especially noteworthy for rural areas. The following table presents data on important health indicators, pointing up some results of the GOP's efforts to reduce rural/urban inequalities.

	1969		1979	
	<u>National</u>	<u>Rural</u>	<u>National</u>	<u>Rural</u>
1. Death rate (per thousand)	7.9	8.2	4.4	4.5
2. Infant mortality (per thousand)	39.9	47.0	24.9	27.8
3. % population with potable water	68.4	39.4	82.9	64.0
4. % population with sanitary facilities	77.2	65.6	90.1	81.3

Progress on other indicators for the national level over a similar period show illiteracy decreasing from 20.7% to 15.0%, the birth rate

declining from 38.0 per thousand to 28.1, and population growth rate decreasing from 3.1% to 2.5% per year.

Commitment to improved access by low-income agricultural producers has been strong, but progress has been slow. The GOP has established a system of price supports and controlled marketing margins and is purchasing several basic commodities from producers to support the market for their crops. The government has supported some 200 asentamientos, with over 7,000 families participating in a program which provides credit, technical assistance, and other services to organized groups. To date, few asentamientos have achieved financial viability, and the GOP has absorbed their losses. The GOP also has assisted the cooperative movement and other group arrangements.

### 3. Human Rights/Political Environment

Panama has had a good record of human rights progress in the last two years. After a decade-long "moratorium" on organized political activity instituted to give the "revolution" an opportunity to consolidate its reforms, as well as to maintain internal cohesion during the protracted Canal Treaties negotiation process, the political system in Panama is currently undergoing a period of liberalization.

Panama is governed under a Constitution promulgated in 1972. Under a transitory provision of the Constitution, General Omar Torrijos held broad powers as "maximum leader of the Panamanian revolution" for a six-year period. With the expiration of those powers in 1978, Torrijos retained only his position as Commander-in-Chief; nevertheless, he has continued to exert great influence in Panamanian governmental affairs, e.g., his designees were elected President and Vice President by the National Assembly in 1978.

Under the Constitution, 505 community representatives are elected by secret, popular vote for six-year terms and constitute the National Assembly. Roughly 70-80% of the electorate participated in the elections held in August 1978. Because representatives are elected from municipal subdivisions (corregimientos), and not on the basis of population, the less populous rural districts are dominant in the Assembly. This system has resulted in greater participation in public life of the less advantaged segments of the population giving the poor, women and indigenous minorities greater voice in the affairs of state.

Under 1978 constitutional reforms, legislative power, except for the power of the purse, was shifted from the Executive Branch to a National Legislative Council composed of 37 National Assembly and 19 representatives popularly elected in September 1980. Assembly and Council members are currently pressing for greater substantive power to include review of the national budget. The President and Vice President are to be chosen in direct popular elections beginning in 1984. In the meantime, real power continues to be centered around the small National Guard and the civilian Executive Branch.

Respect for civil and political liberties has increased over the last few years as a result of a series of political reforms, giving legal status to several political parties, some of which have been sharply critical of the government. Reports of degrading treatment and arbitrary arrest do occur, but such cases are not common. The inviolability of the home is respected. In ordinary criminal cases, Panamanians have the benefit of a fair and public trial. In politically sensitive cases, however, the judiciary appears to have been susceptible to the influence of the Executive Branch. With few

exceptions, labor unions are free to organize and operate, and the government frequently solicits their views and the views of a broad range of non-government groups and associations during the formulation of policy initiatives.

There is relative freedom of the press in Panama. Two opposition dailies, opposition radio stations, and other newspapers, television and radio stations are permitted to run stories critical of government policies and programs with no harassment or censorship. The Government, however, took punitive actions in early 1980 against some individual journalists whom it accused of irresponsible reporting. Also, the Government controls directly three of the six dailies.

#### 4. Development Budget

The GOP's consolidated national budget expenditures for 1980 are estimated at \$1.1 billion, comprising about one third of GDP. Central government revenues of an estimated \$660 million (36% over 1979) cover only current expenditures, leaving the investment program to be financed principally by foreign borrowing, as has been the pattern in recent years. About 51% of current expenditures are taken up by interest and transfer payments. Among the ministries, the largest allocation, 16.5%, goes to education. The health ministry receives 7.5% and agriculture 2.2%. An estimated 7% goes for defense spending, which, as usual, will come to less than 1% of GDP. The largest allocations in the \$445 million public-sector-investment budget for 1980 (little change in real terms from 1979) are for physical infrastructure: 21.7% for electricity (hydropower development) and 11.6% for transportation (roads, ports, airports). Agriculture received 16% and commerce and industry 11.7%.

The GOP faces a difficult financial situation over the next few years due to its increasingly heavy debt-service burden, which will limit public sector borrowing, hence, its investment program in the future.

E. Absorptive Capacity

Panama's public service is not meeting the challenge of the '80s. The capacity of the limited number of competent senior professionals appears to be strained by ongoing and increasing responsibilities placed on the government by the rapid expansion of public services and the challenge of new responsibilities the Republic has in the former Canal Zone. Competent senior officials, inadequately supported by middle- and lower-level public servants, do not perform satisfactorily.

Personnel is not the only problem. The Government is poorly organized: inadequate or non-existent linkages, lack of coordination and intra-agency collaboration and duplication of effort are common. Also, sector objectives are poorly defined, priorities are randomly assigned and poor services provided.

The GOP is aware of the problem and is trying to improve the administration of the public sector by coordinating government training programs and reorganizing public entities into functional sectors. Moreover, the GOP is slowly developing a major program that will combine administrative reform with stepped-up training of middle-level public officials.

To help Panama improve the operational effectiveness of the public sector, AID intends to assist this administrative improvement program through analysis and adaptation of improved management systems and training in modern management techniques for mid-level administrators.

F. Other Donors

As of September 30, 1980, the IDB and IBRD pipeline totaled almost \$400 million. The largest amount for a single year was \$180 million in 1977, when IDB provided \$122 million for hydroelectric power and tourism development,

and IBRD provided \$57.7 million for hydroelectric power, livestock development and fishing fleet improvement. Assistance from these two institutions was smaller in 1980, totaling almost \$47 million, primarily for infrastructure and human resources development, social service, economic production and environmental activities.

In 1980, IBRD and the GOP signed an agreement whereby the bank will provide \$35 million in loans for the development of Colon (as part of a \$120 million five-year program, of which \$70 million will come from a consortium of Japanese banks). A primary goal is to relieve Colon's pressing unemployment problem. This will be achieved, in part, by the creation of an industrial park in a section of the former Canal Zone. The park is expected to create 5,000 permanent jobs--overall, the entire program will probably create 8,000 new jobs.

Projects being designed for 1981 by IDB and IBRD will emphasize agricultural, industrial and infrastructure development. IDB is also expected to finance part of a special program to stimulate the establishment, expansion and improvement of small and medium-sized manufacturing firms. Furthermore, the IBRD and the GOP will sign an agreement in which Panama will receive \$4.4 million for the exploration of petroleum and coal deposits.

The UN system provided in 1979 about \$4.6 million in technical assistance \$2.2 million from the UNDP and \$2.4 million from the specialized agencies. This aid went to agriculture, mining, health, rural development, transportation and research. The UNDP has programmed a budget of \$4.5 million for 1981.

Bilateral programs of the DAC countries consist primarily of procurement credits, training assistance and scholarships, accounting for \$8.3 million in 1980. Of this amount, Japan and Germany are providing \$6.0 million for training equipment and technical assistance. OAS and IICA activities consist

mainly of advisors and scholarships; the cost of these totaling \$1.2 million in 1980.

The Ministry of Planning and Economic Policy (MIPPE) is the major counterpart agency for all donors at the policy level. However, MIPPE's coordination is weak. The Ministry has not attempted to take a leadership role in setting assistance priorities. Formal and informal attempts by the donors themselves to coordinate their activities have taken place, but have been frustrated by limited authority and interest of some donors to coordinate programs in the field.

The donors vary in their approach to assisting Panama with its development needs. The IDB and IBRD tend to concentrate their assistance on infrastructure projects (although the IBRD is breaking with this pattern by contributing to the aforementioned Colon Development Program). Some bilateral donors, the UNDP, and the OAS focus on relatively small technical assistance activities. AID fills an important gap by concentrating its resources on improving the standard of living of the poor and trying to assist the GOP and the other donors in considering the needs of the poor while pursuing overall economic objectives.

## PART II. STRATEGY

### A. Long-range goal

The Mission's long-range goal is to encourage and support public- and private-sector efforts to improve living standards through improved and more efficient use of both human and natural resources. Programs emanating from this goal are consistent with the main objectives outlined in the forthcoming 1981-85 National Development Plan, especially with regard to the "incorporation of the active population<sup>1/</sup> in the development process to avoid

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<sup>1/</sup> Active population, or economically active population, for Panama is generally calculated by the Mission as 60% of the 15-and-above age group. See page 15.

any further increase in the unemployment rate." Indeed, this objective appears understated in the draft Plan: Panamanians agree that not only should any increase of unemployment be halted, they also agree that the unemployment rate is already too high and should be reduced.

Panamanians debate the priority of future investments, and by whom they should be made. The public and private sectors have engaged in lively dialogue in the public press, in national elections, and in seminars conducted by various public and private-sector institutions regarding how to stimulate growth and reduce unemployment. Government and private-sector representatives have discussed their views with the Mission. Their understanding of our objectives is assured and shared.

B. Intermediate targets: The 1983-87 Period

The Mission's country development strategy is predicated upon the analysis presented in Part I of this document, which identifies two major types of problems--employment creation, primarily in urban Panama, and low productivity in rural Panama. In the first part of this document we have discussed fundamental development problems in the context of their importance to achieving self-sustained economic growth with equity as well as their geographic location, i.e., whether the problems were uniquely urban, rural or involved both sectors. Consequently, and because Panama is now experiencing and will continue to experience rural to urban migration over the next 20 years, the Mission considers the employment target to be largely impacting on the urban sector (Panama City-Colon metropolitan corridor and secondary cities) and the productivity target to include traditional agricultural problems.

In the FY 82 CDSS, the employment-generation, asset-formation, and development-support triad was an effort to present a non-geographic approach

to a near-term AID assistance program. In this document, we are substantially increasing our focus upon employment and asset formation, the latter renamed "productivity" for the sake of clarity. Activities previously included under "development support," viz., development administration, environment and energy, will either begin before this CDSS or will be included in a second tier of proposed activities<sup>1/</sup> which, although important, are not within our first order of priorities (as determined by our country strategy) because of the Mission's limited resources. Panama's urbanization, its traditional dual economy characteristics of a lagging agricultural sector contrasted with a modern urban district, and the canal as a source of wealth, employment, and, perhaps most important, as a symbol of this country's nationhood, make it particularly attractive to consider the ongoing and proposed program in a geographic context.

Future rural activities will include agricultural research, technology transfer and production credit programs, and subject to considerations discussed herein, alternative energy and rural access road expansion. Urban projects will include an employment-generation program discussed below, continuation of the rural growth and service centers program, housing guarantees, and worker training programs. "Crossover" programs, involving both geographic divisions, will include small enterprise credit and, perhaps, nutrition.

Following is a discussion of USAID strategy and subsidiary targets during the CDSS period:

1. Employment

The goal is to enable Panama to develop and implement an ongoing program

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<sup>1/</sup> See Proposed Assistance Planning Levels table, page 60.

marshalling public- and private-sector investment resources to increase employment opportunities. The Mission's employment-strategy targets are to stimulate investment in job-creating enterprises, to increase the marketable skills of the currently unemployed, and to strengthen the government's ability to analyze the dimensions of the employment problem and devise and implement programs and policies supporting its resolution. These targets are based upon a preliminary analysis of the constraints to job creation. The private sector, as discussed in Part I, is commonly agreed to have the central role in revitalizing the economy and in creating jobs in the future. Constraints to rapid expansion of job-creating enterprises for the majority of the unemployed, include: (a) labor legislation, whose effect is to discourage labor-intensive investments and favor capital-intensive investments through imposition of comparatively high-cost welfare payments and generous job-security guarantees; (b) government price-control programs which have performed erratically and inflexibly; (c) a credit system (which discourages access to small borrowers by imposing expensive and confusing bureaucratic requirements, demanding unrealistically high collateral, and, in general, by treating small and large borrowers alike) that prefers the large borrowers where, it is felt, risk is lower and profit higher; (d) lack of an adequately trained, skilled workforce despite relatively high education levels; and (e) lack of managerial and technical knowledge on the part of existing and potential small entrepreneurs.

In this context, the USAID has concluded that, although these and other constraints severely restrict job creation, they can be dealt with through policy reform and through simultaneous initiations of a model small-business credit program. Our decision is based on varying but nonetheless strong public- and private-sector interest in dealing with the growing

number of unemployed; demand by the small-business sector for credit; conclusions of studies which show small businesses to be more labor intensive per dollar invested than larger firms; and relative availability of credit for medium and large business. The strategy's approach will be in four parts:

- 1) Creation of a Panamanian government analysis unit. Included for examination will be opportunities for import substitution and expansion of domestic markets, production of new products for export markets, and the modification of existing production technologies to make them more labor intensive, the possibility that government policies, programs and institutions can support job creation, especially in the private sector.
- 2) Implementation of a model supervised credit mechanism for small firms. This mechanism also will have a substantial technical/managerial assistance component that will reduce or eliminate many of the technical constraints that prevent medium and small firms from improving their profitability, increasing production and hiring more labor.
- 3) Modernization and rationalization of the country's job training and placement services to help the labor supply anticipate and support labor requirements for skilled or semi-skilled workers.
- 4) The fourth part of the strategy is undefined, and will depend upon success of the foregoing program, especially the employment-policy unit. It may consist of AID support for program and policy initiatives (to be identified by the employment analysis unit) such as assistance in creating a Panamanian equivalent of small-business administration, export-incentive programs, and assistance to small businesses, based on an ongoing OPG with the Panamanian Association of Business Executives. The USAID strategy will begin an evolving program within the Government of Panama whose impact in the area of credit will become evident soon, and which, through policy analysis and reform, will offer the Government the potential to support employment-generating efforts and to initiate broad and enduring economic policy reforms. In addition, the program will help Panama simplify and coordinate its administration of employment-generating

activities in order to increase efficiency and improve the Government's absorptive capacity.

The Mission will begin to address some of these very issues in FY 81 with the Employment Planning and Generation (EPG) project (525-0221) and in FY 82 with the Workforce Development project (525-0214). The EPG activity will: (1) provide credit and technical assistance to existing or prospective entrepreneurs in medium and small enterprises; and (2) assist in the creation of an employment-policy unit in the GOP. Based on identifiable manpower requirements, the Workforce Development loan will help improve vocational instruction among various public and private institutions, improve access to these institutions by the poor (urban and rural), and link training source graduates with job opportunities through placement programs.

The foregoing is but a sketch of a draft strategy which has been presented in a separate document ("Towards an Employment Strategy," September 1980). While AID/W has endorsed this Mission's emphasis on the employment problem, significant additional information has been requested regarding, inter alia, Panamanian strategy, sectoral priorities and likely impact of our proposals. These will be presented in a revised Employment Strategy Statement to be submitted separately. However, Part I of this document briefly discusses ongoing GOP programs, e.g., light industry and Colon redevelopment, which are already underway and represent disparate, but important efforts to cope with this complex problem.

## 2. Productivity

The goal of the productivity strategy, consistent with the draft GOP 1981-85 National Development Plan, is to increase food production and per-area yield. AID will focus especially on small farmers through support for a combination of public- and private-sector activities. The Mission will

help Panama reach this goal through activities designed to: improve the GOP's capacity to deliver services to the majority of small farmers, thereby helping to increase income and employment; develop and improve agricultural technology research and dissemination services through public- and private-sector systems (e.g., cooperatives and agribusiness); and strengthen farmer access to service centers for agricultural marketing, processing and transportation.

Despite urbanization, there exists and will continue to exist a significant impoverished rural population, a high proportion of which is composed of small and subsistence-level farmers. The analysis in Part I identified the fundamental rural-sector development problem to be low agricultural productivity and low rural incomes. Government policies, low levels of technology, weak production research, limited extension activities, combined with a limited natural-resource base, keep a large portion of the rural population poor and check potentially rapid sectoral growth.

The decline in productivity and the ever-increasing need to import the basic staples are indicative of the agriculture sector's malaise. Moreover, and in spite of population flows from farm to urban areas, the forthcoming 1980 Census data are expected to confirm that the small-farmer sector remains poor and that government programs to this sector reflect questionable priorities, poor resource allocation and limited institutional and personnel capacity (see Table F "Urban/Rural Distribution of Poverty"). Analysis and experience show that small farmers can improve their well-being and their productivity if they receive an appropriate mix of technical assistance and inputs; if they gain easier access to service centers; if available credit systems exist to enable them to utilize new production systems; and if, as

necessary, they can find off-farm employment during non-peak periods.

The 1980 Census may help to focus the future areas where we will attempt to implement these related activities, and the new GOP National Development Plan should help us to relate these objectives to Panamanian investment priorities. However, a major constraint to achievement of the strategy's objectives is the emphasis which Panama's Agriculture Ministry (MIDA) and Agricultural Development Bank (BDA) have placed upon the asentamiento program, which represents perhaps 5% of rural farmers.

Our rural programs are designed to expand services to other small farmers and to strengthen the institutions that will provide these services. Ongoing programs in agricultural technology development, marketing and integrated rural development share this objective. The Agricultural Technology Development loan (525-T-050) is focused on eight potentially productive areas, several of which are relatively isolated. This project will assist in improving the technology of small producers in these areas--to which credit servicing and marketing possibilities should be attracted. The Marketing Systems loan (525-T-042) is helping to build grain-marketing and collection centers throughout the countryside, including some areas that are now relatively isolated from the market economy. Finally, the reprogramming of the Integrated Rural Development loan (525-T-046) should result in a coordinated attack on poverty in one of the most impoverished regions of the country.

The Mission's future agricultural activities with the government in extension and technology will continue this emphasis. Planned activities with cooperatives and agribusiness reflect the Mission's intent also to use the private sector to stimulate development of the small-farm sector.

Finally, the USAID will consider the usefulness of supporting a rural-

sector study aimed at better identification of potential activities amenable to AID intervention. Our support for such a study would be based upon GOP interest and prospects for future AID resources to Panama. This Mission is very cognizant of issues raised by IDCA regarding future program levels; and, while we consider the \$10 million level sufficient to support a modest but nonetheless effective program, any further reduction would question the usefulness of conducting such a major study.

C. Special Sectors

During the period of this CDSS, the USAID plans to consider certain special activities indirectly linked to the employment-productivity targets but directly benefitting low-income populations. These activities are housing, nutrition and non-traditional energy:

1. Housing

A note from Secretary Vance to the Panamanian Ambassador on September 7, 1977, stated that the United States was prepared to develop an economic program for Panama that would consist of loans, guarantees and credits of up to \$295 million. This economic cooperation program, which grew out of negotiations on Treaty-related economic arrangements, but is not dependent on the treaties themselves, includes up to \$75 million in AID housing guarantees to support an approved five-year (FY 1979 to 1984) shelter and community-upgrading program. The first \$25 million guarantee was negotiated in FY 1979, the second \$25 million is planned for FY 1981, and the final credit is planned for FY 1983. This \$75 million investment, over five years will not only create and improve shelters, but it will also generate an estimated 2,025 on-site and 3,500 off-site jobs.

HIG resources will support this program, including providing resources

for integrated shelter and infrastructure for the urban poor, in both the metropolitan area and in secondary cities. The program includes the channeling of resources to: (a) expand housing investment, (b) improve the capacities of the Ministry of Housing (MIVI) and cooperatives, and (c) strengthen coordination between housing finance and delivery institutions and public-service institutions, e.g., education, water, roads, power, with the overall objective being to produce, at market rates, affordable housing within an integrated urban context for the poor. Housing, to be supported in regional growth centers and in the metropolitan corridor, will lead to planned community development that, in turn, will lead to more efficient, less costly service systems, and reduced adverse environmental problems. In addition, the construction activities themselves, plus the incremental demand generated for Panamanian componentry, will generate short- and medium-term employment opportunities.

The HIG program does more than just create jobs and provide shelters that bring with them health and environmental benefits, however. The shelters it provides are hedges against inflation, sources of future credit, and collateral for current consumption or expansion of other assets.

The Mission's housing program also includes HIGs to support low-income construction in growth centers, complementing a Panamanian-USAID program that supports improved services to small farmers, agribusinesses and other types of small businesses in urban centers outside of the metropolitan corridor.

## 2. Nutrition

Preliminary results of a countrywide nutrition survey, completed in August 1980, indicate widespread malnutrition in Panama, especially among the young. Of the 7,580 households surveyed, representing 60 districts in nine provinces, an estimated 59.3% of the children age five and younger were classified as exhibiting chronic malnutrition of varying severity. While the survey data

are still inconclusive and require careful analysis before any broad conclusions can be reached, the implications of preliminary data concern the GOP.

The Ministry of Health hopes to use this survey in developing a national "Multisectoral Plan for Food and Nutrition," from which a variety of nutrition-related action projects can be developed and implemented. Given the many and interrelated causal factors that contribute to malnutrition, the Mission considers that a multisectoral approach, combining such discrete elements as nutrition training for health intermediaries, formal and informal nutrition education, and community-based agriculture projects, may offer the best chance to reverse the trend now apparent. Over the longer term, we expect that the Mission's successful efforts to improve small-farmer production, expand employment opportunities and raise incomes for the poor will have a positive impact on food consumption and nutrition in Panama.

### 3. Energy

Although Panama has abundant hydroelectric potential, in 1976, less than 15% of its commercial electric power was so derived. Now, after construction of facilities at Bayano and La Estrella-Los Valles, more than 50% of total power is hydroelectrically generated. By 1983, that figure will exceed 80% (following completion of La Fortuna hydroelectric plant) and, by 1990, come close to 100% (after the Changuinola hydroelectric facilities are finished). The effect of this program will be to reduce Panama's dependence on oil for electricity generation.

Many rural communities, however, because of their isolation, will not be integrated into the national power grid and will be subjected to ever increasing prices for the oil they use. It is important, therefore, that renewable environmentally sound energy sources be developed so these communities

can receive low-cost energy. With this purpose in mind, an ongoing alternative energy sources grant is completing an alternative energy master plan, some micro-hydroelectric feasibility studies, some demonstration projects and a solar/wind data information system. During FY 1981 and FY 1982, limited demonstrations of micro-hydroelectric, bio-gasification, solar and wood-fueled energy systems will be installed and evaluated. Future assistance will be considered, depending upon need, the degree of IBRD and other donor interest, Panama's priorities, and resource availabilities. At this writing, and based upon these considerations, a future energy loan is shown as a "second tier"<sup>1/</sup> proposal for FY 1983.

D. A More Compact Approach

As illustrated on page 60, during the CDSS period we propose only one new major initiative per fiscal year--with other activities possible, resources permitting. We do not expect to have activities in:

--traditional education, including school construction and curriculum reform. Our present activity (V-043) will be completed in FY 1982.

--health and population. Our present health loan terminates in 1982 and the population grant ends in 1984. (Regional assistance in population is expected to continue from, e.g., IPPF, Pathfinder UNFPA, etc.)

--integrated rural development, which terminates in 1985.

As stated above, future activities in nutrition and alternative energy, while possible, depend upon careful investigation of other donor interest, need, government priorities and AID resource availability. For this reason, these activities are listed in a second tier, i.e., additional to the \$10 million

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<sup>1/</sup> See Proposed Assistance Planning Level Table, page 60.

annual planning level.

Since unemployment appears to be largely an urban problem and under-employment a severe rural problem, programs supporting urban job creation and improved agricultural productivity are proposed within the CDSS. Part of the effort to generate employment will involve the creation of a development fund for small enterprises, a second program to improve worker training and manpower analysis, and continued modest technical assistance to Panamanian non-profit ventures to assist small businesses in management and in technology transfer--the creation of a Panamanian equivalent of the International Executive Corps, for example.

While the Mission does not contemplate a direct employment program for the agricultural sector, the employment strategy will indirectly create new jobs or make existing ones more remunerative in the sector, as the employed non-farm population expands and agro-industries increase their demand for domestic agricultural production. The Mission intends to continue assistance to small farmers through support for improved extension services, a cooperative production and agribusiness-credit program and, perhaps, a future rural roads program. These will permit small farmers to increase production and meet the growing demands of agro-industry and the domestic market. Support will also be given to follow-on programs to rural growth and service centers (which indirectly will create more jobs).

No major programs are planned that will focus exclusively on women. The Mission will, however, develop and carry out its overall employment-productivity strategy in such a way that it will satisfy some of the most critical needs and concerns of the women in our target group. The first step in this effort will be upcoming studies related to employment generation that

will consider, inter alia, how and where increased private investment can create jobs for women.

As described earlier, the lack of economic growth constitutes the major reason why poverty in Panama has not been significantly reduced in recent years--despite large GOP investments. There is evidence that growth resumed in 1979--although opinions differ on whether this is a transitory or lasting phenomena--and that some of the elements for a greater resurgence of private investment are in place: encouraging government statements, ample tax and profit repatriation incentives and political stability, among others. However, as we have stated previously, all these favorable factors, including receipt of Canal revenues and resources, will not suffice to create enough permanent new jobs to match the present excess labor supply, nor keep up with its growth. What is needed is a program that will, simultaneously: help resolve policy constraints on private investment; analyze internal and external markets for goods and services which Panama could supply; identify entrepreneurs and match them with appropriate technologies and sources of financing and technical assistance; and ensure the participation of the poor in all of this as new policies, and new opportunities for training and employment develop.

Our employment-generation strategy, as we stated last year, involves us in areas in which we have limited experience. (AID/W also lacks experience in this area, which is the reason why it set up special employment task forces to devise new techniques.) Thus, we see no change in tactics from our last CDSS: we will continue to better define the various dimensions of employment and job creation and proceed with solutions which reflect our increasing knowledge. High up in rank in both procedures will be helping

and encouraging the GOP to achieve internal consensus on the dimensions of the problem and on which institutions should design and implement the program.

AID resources are inadequate to directly support an expansion of the economy sufficient to generate jobs for the increasing labor force--nor would this be an appropriate role for our assistance funds even if sufficient resources were available. Nevertheless, the U.S. continues to have interests in policies promoting stability, equitable growth and maintenance of a social and economic climate conducive to efficient canal operations. Consequently, we will support development of those policies, systems, programs, and institutions which will help ensure that, through the year 2000 (by which time the U.S. may have renegotiated SOFA and other base rights), Panama will not be confronted with economically generated, politically volatile, nationalistic pressures which could threaten canal operations and complicate negotiations for some form of U.S. presence.

### PART III. ASSISTANCE PLANNING LEVEL

#### A. Proposed Assistance Planning Level

AID resources, in Panama as in many other countries, are increasingly limited. The bulk of Panama's borrowings, however, are commercial Eurodollar credits. This USAID's FY 1981 \$11.2 million Congressional Presentation level is less than 10% of Panama's January \$150 million commercial credit. In this context our leverage is necessarily limited, and, in turn, limits the kind of programs we might otherwise wish to consider.

The proposed program contained in this CDSS is presented in two tiers (see page 60), the first within the \$10 million AAPL, with an annual expansion capability presented in a second tier requiring additional resources.

Both tiers are responsive to the employment/productivity targets of the proposed program; the second, in addition, allows for some further support to such special AID sectoral interests as alternative energy.

This program, modest in level as it is, can have a significant impact on overall Panamanian development policy, as well as on target group welfare, if certain conditions exist. First, political stability must continue. This condition now obtains, in contrast with much of Central America, and is crucial to investor confidence, especially of the foreign and domestic private sectors. Second, sound financial--especially debt--management must continue. As stated in Part I, Panama's debt requires fiscal restraint and maintenance of a careful balance between investment, taxation and borrowing to produce prudent growth. Panama has been successful so far in managing its economy although concern exists regarding the future performance of the Republic should, for example, the international money market tighten. At present levels, U.S. assistance could not offset such a severe miscalculation, nor would private sector lending likely become readily available were default prospects at all likely. Third, absorptive capacity--in terms of bureaucratic efficiency, and intra-government coordination, manpower skills and motivation must be sufficiently supportive on a project level to assure program success. Also, on a national level, absorptive capacity should be sufficient to encourage more rapid disbursement of concessionally funded programs.

PROPOSED ASSISTANCE PLANNING LEVELS  
( \$ Millions )

Tier One

<u>Loans</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>
Agricultural Productivity (FN)	9	9			9
Employment (EH)				9	
Small Enterprise Development (FN/SD)			9		
<u>Grants</u>					
(all categories)	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Sub-total	\$10	\$10	\$10	\$10	\$10
<u>HIGs</u>	\$25	-	-	-	-
PL 480 Title II	\$ 2.3	\$ 2.5	\$ 2.8	\$ 3.1	\$ 3.4

Tier Two

Energy	5				
Nutrition	3				
Agricultural Productivity			10	5	5
HIGs		15			

B. Staffing Implications

At the start of FY 1981 the personnel ceiling totaled 25 USDH and 55 FNDH. A reduced program--in dollar value and in number of projects--permits and, under present Agency stringencies, calls for further reductions. Furthermore, as the program shifts to areas in which AID has relatively less institutional capability, we expect to rely increasingly upon specialized PASA and contract personnel. Simultaneously, and notwithstanding FNDH personnel reductions, increasing reliance will be placed upon Panamanian professionals for program management and continuity.

This Mission plans to assign personnel in accord with the illustrated program. Significant US and FN personnel reductions should become possible as the present portfolio of 26 active projects (plus two housing guarantees) is reduced and fewer new activities are begun.

	<u>USDH STAFFING LEVELS<sup>1/</sup></u>				
	FY 1983-1987				
	1983	1984	1985	1986	1987
Program Direction and Development	6	5	5	5	5
Agriculture and Rural Development	3	3	3	2	2
Multisector	3	2	2	2	2
Program Support <sup>2/</sup>	<u>5</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>3</u>
	17	14	14	12	12

<sup>1/</sup> FY 1981 level: USDH 25. Excludes Regional Housing Office (with three USDH) and Excess Property Officer (1).

<sup>2/</sup> Includes Regional Contracting Officer (all years) and one USDH Engineer in FYs 83 and 84.

ANNEX  
TABLE A

GDP AND EMPLOYMENT BY SECTOR<sup>1/</sup>  
1960 and 1979

	GDP (\$ Millions) <sup>2/</sup>		Employment (Thousands) <sup>3/</sup>	
	<u>1960</u>	<u>1979</u>	<u>1960</u>	<u>1979</u>
Agriculture	95.2 (24)	195.1 (14)	154 (51)	155.6 (29)
Manufacturing industries	40.9 (10)	186.6 (14)	24 (8)	53.4 (10)
Construction	22.5 (6)	64.9 (5)	9 (3)	30.8 (6)
Commerce	47.9 (12)	183.4 (13)	27 (9)	70.9 (14)
Services	154.1 (40)	640.4 (48)	70 (24)	198.7 (38)
Canal Area	<u>30.4 (8)</u>	<u>80.8 (6)</u>	<u>16 (5)</u>	<u>17.6 (3)</u>
Total	<u>391.0</u> 100	<u>1,351.2</u> 100	<u>300</u> 100	<u>527.0</u> 100

1/ 1960 Prices.

2/ Panamá en Cifras, 1959 a 1963 y 1975 a 1979, Dirección de Estadística y Censo, Contraloría General de la República.

3/ Censo de Población, 1960 y 1980, Contraloría General de la República

Agriculture includes: agriculture, fish, silviculture, and mining activities.

Commerce includes: wholesale and retail trade.

Services include: electricity, gas, water, sewer, transport, storage, communications, banking, insurance, housing, public administration and public and private services.

ANNEX  
TABLE B

PANAMA - EMPLOYMENT/OUTPUT COEFFICIENT <sup>1/</sup>

BY SECTOR, 1960-70 AND 1970-78

<u>SECTOR</u>	<u>1960-70</u>	<u>1970-78</u>
Agriculture	0.09	-0.35
Manufacturing	0.64	0.50
Construction	1.01	0.50
Electricity, Gas and Water	1.28	0.74
Commerce	0.82	0.41
Transp., Comm., Storage	0.52	0.58
Finance and Related Services	0.69	0.93
Services	0.95	0.87
Canal Area	0.25	-1.77
TOTAL	0.46	0.42

<sup>1/</sup> The coefficient represents the relationship between the rate of growth in employment and the rate of growth in output (GDP). The lower the ratio, the more capital intensive the economy tends to be. Negative values reflect fall in employment.

Source: OIT/PRELAC, Situación y Perspectivas del Empleo en Panamá, for 1960 and 1970, and INDESA, Factores que Afectan la Demanda por Mano de Obra en Panamá, December 1979, pp. 59-65.

ANNEX  
TABLE C

Labor Force Data, 1970-1979 (Mission Estimates)<sup>a/</sup>

(thousands of persons)

Year	Population 15 Years Old +	Economically Active Population <sup>b/</sup>	Labor Force Participation Rate (%) <sup>b/</sup>	Employment <sup>a/</sup>	Unemployment <sup>b/</sup>	Unemployment Rate (%) <sup>b/</sup>
1970	762.7	457.6	60	434.3	23.3	5.0
1971	786.8	472.0	60	441.3	30.7	7.0
1972	811.7	487.0	60	455.4	42.4	6.0
1973	835.8	501.5	60	464.1	37.4	7.0
1974	869.5	521.7	60	487.4	34.3	7.0
1975	896.1	537.7	60	461.2	76.5	14.0
1976	917.9	550.7	60	471.6	79.1	14.0
1977	950.5	570.3	60	470.5	99.8	17.0
1978	973.7	584.2	60	482.3 <sup>b/</sup>	101.9	17.0
1979	1,002.9	601.7	60	509.3 <sup>b/</sup>	92.4	15.4

<sup>a/</sup> Source: Panamá en Cifras, 1975-79. Dirección de Estadística y Censo, Contraloría General de la República.

<sup>b/</sup> A constant 60% labor force participation rate has been used to smmoth out the unexplained and erratic participation rate used in official statistics. In addition, the official 1978 and 1979 employment figures have been reduced by the 17,000 workers placed on the public dole under the Plan de Urgencia. Preliminary 1980 estimates show GDP to have fallen to a 5% rate. Hence the unemployment rate in 1980 should be higher than in 1979.

ANNEX  
TABLE D

LABOR FORCE TRENDS FOR THE METROPOLITAN REGION  
1974-1979

	1974	1975	1976	1977	1978	1978 (Adjusted)	1979	1979 (Adjusted)
Population 15 years and over	455,800	478,630	501,060	534,260	552,000	552,000	574,317	574,317
Economically Active Pop.	280,300	284,100	279,760	289,680	314,020	331,200	342,522	344,590
Participation Rate	61.5%	59.4%	55.8%	54.2%	56.9%	60.0%	59.6%	60.0%
Non-economically Active Pop.	175,500	194,530	221,300	244,580	237,980	220,800	231,795	229,727
Percentage of Pop.	38.5%	40.6%	44.2%	45.8%	43.1%	40.0%	40.4%	40.0%
Employed	260,400	259,030	254,920	256,000	281,240	264,240	301,835	284,835
Unemployed	19,900	25,070	24,840	33,680	32,780	66,960	40,687	59,755
Unemployment Rate	7.1%	8.8%	8.9%	11.6%	10.4%	20.2%	11.9%	17.3%

Source: 1974-1979, Dirección de Estadística y Censo, Contraloría General de la República. 1978-1979, adjusted-Mission estimates, based on 60% EAP rate and reduction of official GOP employment figure by 17,000 for 1978 and 1979 to account for those being employed under the Plan de Urgencia.

ANNEX  
TABLE E

Labor Force Data 1960-1978 (Reported)<sup>1/</sup>  
(thousands of persons)

Year	Population 15 years Old +	Economically Active	Labor Force Participation Rate (%)	Employ- ment	Unemploy- ment	Unemploy- ment Rate (%)	Open plus hidden un- employment
1960	571.0	330.0	57.8	300.0	30.0	9.1	
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1962	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1963	620.0	360.0	58.1	339.0	21.0	5.8	
1964	636.0	365.0	57.5	338.0	27.0	7.4	
1965	659.0	379.0	57.5	350.0	29.0	7.7	
1966	680.0	391.0	57.5	371.0	20.0	5.1	
1967	697.0	409.0	58.7	384.0	25.0	6.1	
1968	713.0	435.0	61.0	404.0	31.0	7.1	
1969	737.0	450.0	61.1	420.0	30.0	6.7	
1970	762.7	466.2	61.3	432.9	33.3	7.1	
1971	786.8	471.3	60.7	435.6	35.7	7.6	
1972	811.7	482.2	60.2	449.4	32.8	6.8	
1973	835.8	499.0	59.7	464.1	34.9	7.0	
1974	869.5	517.4	59.5	487.4	30.0	5.8	
1975	896.1	492.8	55.0	461.2	31.6	6.4	7.5
1976	917.9	505.3	55.0	471.6	33.7	6.7	11.5
1977(R)	950.1	515.2	54.2	470.4	44.8	8.7	11.8
1978(R)	973.7	543.0	55.8	499.2	43.8	8.1	11.4
1979(P)	1,002.9	577.8	57.6	527.0	50.7	8.8	

Source: Dirección de Estadística y Censo, Contraloría General de la República; Panamá en Cifras, Años 1974 a 1978, y Años 1975 a 1979 and unpublished GOP documents.

<sup>1/</sup> Data for 1960 are from the national census conducted in that year. Beginning in 1963, the data are based on annual labor force surveys.

n.a. Not available  
(R) Revised by GOP  
(P) Preliminary

ANNEX  
TABLE F

URBAN/RURAL DISTRIBUTION OF POVERTY  
1975

<u>Geographic Location</u>	<u>Poverty Line<sup>1/</sup> (Dollars)1975</u>	<u>Number of Poor Families</u>	<u>Percent of Families in Geographic Location</u>	<u>Percent of Poor Families</u>
Urban Panama/Colon	175	40,068	29.8	31.3
Other Urban Area	125	10,240	32.5	8.0
Rural Areas	75	77,616	54.6	60.7
Total	-	127,924	41.5	100.0

Broehl, Allan. Workforce Development Project: Panama 525-0214. Report prepared for USAID/Panama, 13 November - 1 December 1978.

1/ Monthly family income.

ANNEX  
TABLE G

CHANGING ABILITY OF THE ECONOMY TO ABSORB ITS LABOR POOL

<u>Period</u>	<u>Average Yearly Increase in 15-64 age group<sup>1/</sup> over the period</u>	<u>Average Yearly change in EAP (Col. 1 x .6)</u>	<u>Average yearly Number in Group needed to be employed to achieve 10% unemployment (Col. 2 x .9)</u>	<u>Average number of jobs created yearly by economy<sup>2/</sup></u>
1960-1965	18,125	10,875	9,788	10,400
1965-1970	23,323	13,993	12,594	12,000
1970-1975	26,961	16,176	14,558	14,200
1975-1980	30,533	18,320	16,488	15,000
1980-1985	34,303	20,582	18,524	17,400
1985-1990	36,877	22,126	19,913	20,200
1990-1995	36,888	22,133	19,920	23,200
1995-2000	35,755	21,453	19,308	27,000

1/ The 15-64 age group was used in place of the more usual 15-and-above group because data collection was easier and because the results would not be significantly different (had the larger age grouping been used, the disparity between those seeking jobs and job availability would have been somewhat greater).

2/ Derived by multiplying the 1960 official employment figure of 300,000 by the result obtained from multiplying the employment/output coefficient by the assumed 7% yearly growth rate in GDP, compounded for the five-year period. The increased employment over that period is then obtained and divided by 5 in order to give the yearly average. An employment/output coefficient of 0.46 is used for the 1960-75 period while 0.42 is used for the remaining years in order to reflect the economy's increasing capital-intensiveness in the early 1970s. Example:  $(0.46 \times 7\% = 3.22\%) (1.0322)^5 \times 300,000 = 352,000$ . The employment increase resulting from 0.46 and 7% assumptions and the official 300,000 employment figure for 1960, thus, is 52,000. Dividing by 5 gives the 10,400 average annual figure.

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ANNEX  
TABLE H

IMPACT OF ECONOMIC GROWTH AND  
ECONOMIC STRUCTURE ON UNEMPLOYMENT  
1979-1990

	GDP GROWTH RATE	EMPLOYMENT/ OUTPUT <sup>1/</sup> COEFFICIENT	ANNUAL JOBS CREATED 1979-1985	UNEMPLOYMENT RATE <sup>2/</sup> 1985	ANNUAL JOBS CREATED 1979-1990	UNEMPLOYMENT RATE 1990
1	4%	0.40	8.3	25.1%	8.7	29.5%
2	4%	0.60	12.8	21.5%	13.6	23.1%
3	6%	0.50	16.3	18.6%	17.6	18.0%
4	6%	0.60	19.8	15.8%	21.8	12.6%
5	8%	0.50	22.3	13.8%	24.7	8.8%
6	8%	0.60	27.3	9.7%	30.9	0.8%

<sup>1/</sup> The coefficient is rate of growth of employment over rate of growth of GDP.

<sup>2/</sup> An EAP of 0.6 is assumed.

Source: Factores Que Afectan La Demanda Por Mano de Obra en Panama by Guillermo O. Chapman, Jr., prepared for the Ministry of Planning and USAID/Panama, Panama City, December 1979. In all of the cases above, a 60% labor participation rate is assumed.